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SOURCE Der Volkswirt, No 32, 1952.

1952 GERMAN INTERZONAL TRADE

Comment: The following information is from an article entitled "Interzonenhandel 1952", which appeared in the 9 August 1952 issue of Der Volkswirt (The Economist), a West German weekly economic and financial periodical published by "Der Volkswirt" Wirtschaft- und Finanzzeitung G.m.b.H., Frankfurt am Main, Beethovenstrasse 35a.

The abbreviation "VE" used below stands for Verrechnungseinheit(en) -- clearing unit(s); VE is the unit of currency established under the Frankfurt Agreement of October 1949 for trade between East Germany and West Germany. One VE equals one West mark.⁷

The development of economic relations between the Federal Republic and the Soviet Zone is perhaps indicative of the instability of the relationship between the East and the West. The Berlin Agreement, signed in fall 1951, was never put into effect, since the Soviet Zone, obviously acting under pressure from the occupation authorities, suddenly rejected the guarantees on Berlin traffic to which it had already agreed. As a substitute measure, temporary arrangements were made. The Agreement of early May 1952, covering an exchange of goods in the value of 61 million VE, was followed by agreements covering goods valued at 210 million VE which were to be delivered by each contracting party.

The contents of the new lists, in which a few changes are still possible, indicate a shift in commodities needed, a result of the changed supply situation in both areas. The Soviet Zone, for instance, offers pitwood in quantities greater than the Federal Republic is able to absorb at present. On the other hand, the need for black coal and coke no longer appears to be urgent in the Soviet Zone, since neither commodity appears any longer on the lists. However, since the coal consumption required by the Five-Year Plan and the rearmament program -- the latter is now being pushed with new intensity -- can certainly not be less than before, it is to be assumed that Poland is appreciably increasing its deliveries from Upper Silesia.

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It is peculiar that the Soviet Zone, in taking 33 million VE of agricultural products, is importing 50 percent more products of that commodity group than it delivers. This becomes understandable, however, when it is noted that plans call for Soviet Zone imports of canned fish alone in the amount of 20 million VE. The composition of the West German textile deliveries, valued at 20 million VE, is also new, and includes considerable quantities of finished products which the Soviet Zone had previously refused to accept. The same applies to the West German deliveries of leather shoes, amounting to 4 million VE, a quantity that was not set higher only because of the fear of possible Soviet Zone dumping to the detriment of the West Berlin shoe trade. The fact that the 40 million VE worth of textile deliveries from the Soviet Zone include 15 million VE in women's stockings and 7 million VE in curtains, tulle, etc., will hardly evoke any joy on the part of the new West German manufacturers in these fields. The glass and ceramics deliveries of the Soviet Zone in the amount of 2.5 million VE will have a less significant effect.

The chief items in the West German deliveries continue to be iron and steel, in the value of approximately 30 million VE, which is half the total value of goods provided for in the Berlin Agreement. The Soviet Zone places a decisive value on these shipments. From this fact it is possible to conclude that the iron and steel supply of the Soviet Zone continues to be inadequate. This also confirms reports that the new iron and steel plants in the Soviet Zone have been forced to interrupt their production continually because of faulty materials and a shortage of skilled workers.

Now that the Soviet Zone has realized that Berlin can also be supplied with bulk commodities, such as coal and potatoes, from distant production areas in West Germany, it no longer hesitates to furnish these products from its own production areas, which are closer at hand. About 85,000 tons of potatoes and 700,000 tons of brown-coal briquettes will be delivered to the Western Sector of Berlin by the Soviet Zone within the coming months, thereby reducing the load on the transportation facilities between West Germany and the Western Sector of Berlin, particularly at the control points.

Although the iron and steel deliveries were the decisive factor which induced the Soviet Zone to conclude the agreement, the Western deliveries of consumers' goods, machinery, electrical products, and even less important products such as tobacco and coffee also played a part in Soviet Zone participation in the agreement. The latter items are, of course, for re-export, precisely as the Soviet Zone, during the course of the previous barter agreement, used imports from Eastern Europe and Asia for deliveries to West Germany. Otherwise, the interest of the Soviet Zone in such goods and also in hops seems to indicate an intention to respond to a greater extent to consumer demand, insofar as these commodities, or the products made from them, are not to be used for re-export.

Although the volume of mutual deliveries of goods up to the end of 1952 is not to exceed 210 million VE in either direction, the maximum permissible credit or debit balance of 30 million VE in either direction, provided for in the draft of the Berlin Agreement, has been restored in full. In the May Agreement it had been reduced to the 19.5 million VE, an amount which had already been taken up by the Soviet Zone. At present, the Soviet Zone has available a credit margin of about 8 million VE for the purchase of hard goods. Since agreements for the exchange of consumers' goods are much easier to conclude than those covering investment items, the volume of soft goods (152 million VE) is much higher than that of hard goods (58 million VE).

In selecting items for inclusion in the iron and steel deliveries, it was necessary to observe closely the export restrictions applying to strategic materials. All the less justifiable, though understandable, is the displeasure of the Soviet occupation authorities at the embargo of the Western Allies on such deliveries. The protest of the chief of the Soviet Control Commission against

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the "restriction of trade between East and West Germany" should not be taken too seriously. It is true that this protest recalls specifically the New York and Paris agreements of spring 1949 (lifting of the Berlin blockade). The Moscow tactics consist, however, of so many imponderables that it is hard to judge the importance of such hostile gestures. It is an accepted fact that the procedure of applying pressure on one's counterpart during the course of negotiations constitutes an integral feature of Soviet diplomacy. The fact that the protest was not published until the same time as the announcement of the conclusion of the agreement is probably due to a mistake in the rigid behind-the-scenes management by the USSR. Whether the USSR is honest in its stated willingness to do business will be apparent from the length of time required for the repairs on the Rotuensee Canal locks. Evidence of genuine interest in trade will also be a prerequisite for further meetings of the negotiating commissions which have been called for September 1952 to prepare a new agreement for 1953.

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